

**Project Name:** Student Loan Replacement Project

**Agency:** Bank of North Dakota

**Business Unit/Program Area:** Student Loans

**Project Sponsor:** Julie Kubisiak

**Project Manager:** Val Brostrom

#### **Project Description**

In 1967, BND made the first federally insured student loan in the nation. BND's current student loan portfolio is a combination of Federal Family Education Loan Program (FFELP) loans and Alternative loans totaling over \$838 million. BND services an additional \$61 million in FFELP loans for several other lenders. In 2009, BND will disburse an estimated \$200 million in student loans. To increase other North Dakota lenders' participation in the FFELP, BND acts as a Secondary Market and offers a Student Loan Lender Alliance Program.

In 1993, BND converted to the current student loan management system, Advanced Loan System (ALS), developed by Fidelity. ALS no longer meets the long-term requirements of BND, and the mainframe supporting ALS is scheduled to be decommissioned, by the state, in 2013.

BND worked with a consultant in 2007 to perform an analysis of the current student loan servicing system. This analysis included a review of existing business processes and system requirements in order to identify improvement opportunities and viable business solutions. A number of significant changes occurred in the student lending industry and in the available student loan software product market during 2007 and 2008. Based upon these changes, BND engaged the consultant again and in September 2008, got a current outlook of the student loan software systems available for purchase and/or lease along with some remote servicing options which would allow BND employees to service the loan portfolio (either through an application service provider (ASP) or a provider of software as a service (SaaS).

Using the information that was obtained from the initial research and analysis along with the refreshed perspective, BND's Executive Committee approved the formation of a team to develop an RFP to solicit proposals from vendors, in order to select a viable student loan lender system solution.

An RFP was conducted and the vendor 5280 Solutions (5280) was selected and a contract will be executed. Their system solution will be implemented to replace the existing student loan servicing system.

#### **Business Need or Problem**

Reasons that ALS does not meet the long-term requirements of BND include:

- The age of the system, the language it is written in, along with all of the "patches" that have been done over the years in order to stay in compliance with regulatory requirements limits the functionality that can be added.
- Risk of system failure
- Fidelity, the vendor that originally developed the system, no longer provides system support.
- Difficulties in hiring IT staff that have the skill sets necessary to support the system and for the ongoing development which is needed to maintain compliance with regulatory changes.
- System lacks the efficiencies necessary to process increasing loan volume.
- Manual workarounds increase compliance risks which can lead to uninsured loans.
- The system limits our ability to respond to customer needs and preferences.
- System is costly to operate and costs will increase as other systems are moved off the mainframe.
- ITD's goal is to eliminate the mainframe support by 2013 and the current lender ALS system runs on the mainframe.

#### **Key Metrics**

Project Start Date	Estimated Length of Project	Estimated Cost
11/16/09 phase 1; 2/12/10 phase 2	16 months	\$2,302,858

Benefits to Be Achieved	
Project Objectives	Measurement Description
Reduce the amount of manual intervention for transactions that are affiliated with the ACH process.	<ul style="list-style-type: none"> <li>The average of steps is currently 15 steps and will be reduced to 2 upon final conversion.</li> </ul>
Improve the process surrounding the Quarterly reporting to the federal government (LaRs report).	<ul style="list-style-type: none"> <li>Decrease the manual effort of the processing staff from 1500 occurrences per quarter to 0 within six months of final conversion.</li> <li>Maintain audits without findings, reducing the potential for fines or being eliminated from the program.</li> </ul>
Increase Automation of enrollment reporting.	<ul style="list-style-type: none"> <li>Automate approximately 40% of transactions currently being done manually within 12 months of conversion.</li> </ul>
Move from loan level processing to customer level processing.	<ul style="list-style-type: none"> <li>Decrease the number of accounts to be updated from multiple updates (up to 23) down to 1 or 2 updates for each customer upon final conversion.</li> </ul>
Moving from a mainframe environment to a Windows based environment.	<ul style="list-style-type: none"> <li>Allow for more real-time access to data by BND staff and their customers</li> <li>The system is off of the mainframe environment and in a more stable environment hosted by ITD</li> <li>Have a system that is supported by a vendor</li> <li>Resources are available from the vendor, the agency IT staff, and ITD to support the new system.</li> <li>Reduce the current costs from approximately \$1 million annually. The new system is expected to be \$500,000 for annual maintenance fees plus the additional hosting fees.</li> </ul>
Ability to communicate electronically with customers.	<ul style="list-style-type: none"> <li>Reduce the amount of billings that are required to be mailed by 25% within 12 months of final conversion. Currently the monthly billing is about 30,000.</li> <li>Reduce eligible communications that are currently done via mail to electronic communication by 25% within 12 months of final conversion. Currently the monthly amount is 10,000.</li> </ul>
Provide uninterrupted service to the customers during and after the conversion process.	<ul style="list-style-type: none"> <li>BND will maintain 99% system availability during normal business hour during and after the conversion process.</li> <li>Limit planned down time to nights and weekends.</li> </ul>
Maintain or improve upon the existing services offered to BND's customers.	<ul style="list-style-type: none"> <li>Borrowers are at a minimum able to access the online application process, make payments, and view and update account information online.</li> <li>Schools are at a minimum able to view account information, certify loans, and process common change transaction send (CCTS) records online.</li> </ul>

Cost/Benefit Analysis
<ul style="list-style-type: none"> <li>Eliminate the existing legacy system</li> <li>A solution that is supported by a company and individuals with considerable background and knowledge of federal and private student loan programs</li> <li>System capabilities that allow BND to increase loan volume</li> <li>Added functionality and flexibility which will allow BND employees to respond to customer requests.</li> <li>Increased efficiency in order to meet future demands with existing BND staff</li> <li>Compliant with all State and Federal Regulatory Requirements</li> <li>Decrease daily processing costs</li> <li>Due to changes in the student loan programs (caused by regulatory changes and decrease in financial returns) some student loan lenders will no longer make Federal and or</li> </ul>

Alternative student loans to certain Colleges and or students in North Dakota. This makes BND's ongoing participation in the student loan program critical to ND institutions and residents.

**Cost Estimate:** Estimated at \$2 - \$3.5 million – fixed price funded by BND.

#### **Key Constraints or Risks**

- If the project is not completed - There will be a substantial risk of failing to comply with state and federal regulations resulting in uninsured loans. Additionally, there is a risk that the system will simply fail creating a management crisis with negative fiscal, public and political implications.
- Capabilities of solution selected – risks will be mitigated through a detailed analysis of system capabilities. This analysis will include review/confirmation of responses to detailed business requirements, vendor presentations onsite, feedback and corroboration from existing system users which will be accomplished through discussions and on-site demonstrations.
- Conversion of existing loan data to new system – Risk will be mitigated through analysis of vendor's experience/outcomes of past system conversions. Detailed responses to system conversion plan components, requirements, timelines and costs will be thoroughly analyzed by appropriate staff (technical and business unit) experienced in system conversion projects.